

North West Brexit Monitor

Key economic and policy developments

February 2017

Executive Summary

Headlines

- The economy has been more resilient than most commentators expected since the EU referendum and this trend continues in February with the Bank of England's raising the growth prospects over the next three years. However, there are a substantial number of risks to achieving the economic outlook in the coming months, in particular a weaker pound is driving up inflation and squeezing household purchasing power. The Institute of Fiscal Studies also point to the prospect of continued weak productivity performance and less support from rising labour supply.
- There have been a number of major announcements. Government initiated the first stage of the industrial strategy on the 23rd January with the launch of a 12 week consultation, running until the 17th April, on an extensive industrial strategy discussion paper ("Building our Industrial Strategy: green paper") the consultation document is notable for its much stronger focus on both 'deal making' and on the importance of 'place'. Government also announced the allocations for LEP areas in the Northern Powerhouse alongside the launch of the green paper. ⁽¹⁾
- The month was also marked by **Parliament's vote to trigger Article 50**, and publication of the White Paper - **The United Kingdom's exit from and new partnership with the European Union**, launched on 2 February. The White Paper sets out 12 themes of the government's goals for negotiations with the EU and is an important marker for government. February also saw the publication of the Housing White Paper 'Fixing our broken housing market'.⁽²⁾

Macro economy

- Growth prospects in the near future have been upgraded, but this is alongside rising inflation. **The Bank of England's Monetary Policy Committee (MPC)** at its meeting ending on 1 February 2017 has increased its central expectation for growth over the next 3 years - the central expectation for growth in 2017 is 2.0% and growth of 1.6% in 2018 and 1.7% in 2019 is expected.
- The latest **Consumer Prices Index (CPI)** rate was the highest since July 2014 at 1.6% in December and the Bank now predicts that inflation will remain above its 2% target for the next three years, peaking at 2.8%. The MPC taking account of this alongside growth prospects have voted unanimously to maintain Bank Rate at 0.25%.
- **UK gross domestic product (GDP)** was estimated to have increased by 0.6% during Quarter 4 (Oct to Dec) 2016, the same rate of growth as in the previous 2 quarters. UK GDP was estimated to have increased by 2.0% during 2016, slowing slightly from 2.2% in 2015 and from 3.1% in 2014.

Executive summary

Key sectors & business investment

- **The Lloyds Bank Regional Purchasing Managers' Index (PMI)** shows that all areas of England saw a rise in business activity, the only areas where activity increased at a faster rate month-on-month were the West Midlands (60.1) and the North West (58.1).
- **Manufacturing Purchasing Mangers Index (M-PMI)** for January stood at 55.9 with the latest index outlining a 32-month high in output growth and continued upturns in new orders and employment. The headline M-PMI has remained above 50.0 for 6 months.
- **Services Purchasing Mangers Index (S-PMI)** shows that UK services continued to expand at the start of 2017. However, the sector saw the slowest rise in output since October 2016.

Terms of trade, regulation & access to European funding

- **Rural Development Programme for England Growth Programme** - A national call for rural tourism infrastructure projects was launched on 25 January. Grants from £35,000 are available to fund the capital expenditure of tourism infrastructure projects.
- **Transnational Funding** – The Department for Communities and Local Government is holding an information day on the Northwest Europe Interreg Programme, 9 March in Manchester. Funding themes include: innovation, low carbon, and resource efficiency.

Property investment, housing and planning

- **Official Housing Index data from the Land Registry** suggest the vote to leave the EU has had little impact on house prices. The latest data for the North West shows the average house price of £150,000 (November 2016), up £7,000 from November 2015.
- **Cushman's Regional Office Investment report** shows high investment volumes in the UK's regions in 2016. Whilst activity slowed in the second half of the year, the overall UK investment totalled £1.7bn, the second highest volume in the last decade.

Economic inclusion

- **The Household Finance Index (HFI)** January 2017 shows households had a negative outlook on their financial wellbeing due to mounting price pressures and decreased household income from employment; and indicates further acceleration in inflation ahead.
- **Since the EU referendum result, the claimant count unemployment has fallen in the North West from 105,000 to 103,000.** The claimant rate in January 2017 in the North West was 2.3% of the working age population, compared with 1.9% in the UK.

Macro-economic trends and developments

Macro-economy

- **UK gross domestic product (GDP)** was estimated to have increased by 0.6% during Quarter 4 (Oct to Dec) 2016, the same rate of growth as in the previous 2 quarters. Growth during Quarter 4 was dominated by services, with a strong contribution from consumer-focused industries such as retail sales and travel agency services. Overall, UK GDP was estimated to have increased by 2.0% during 2016, slowing slightly from 2.2% in 2015 and from 3.1% in 2014.⁽³⁾
- **The Bank of England's Monetary Policy Committee (MPC)** at its meeting ending on 1 February 2017, voted unanimously to maintain Bank Rate at 0.25%. As the MPC had observed at the time of the UK's referendum on membership of the EU, the appropriate path for monetary policy depends on the evolution of demand, potential supply, the exchange rate, and inflation. The MPC has increased its central expectation for growth in 2017 to 2.0% and expects growth of 1.6% in 2018 and 1.7% in 2019.⁽⁴⁾
- **Domestic demand** has been stronger than expected during 2016, and there have been relatively few signs of the slowdown in consumer spending. Nevertheless, continued moderation in pay growth and higher import prices following sterling's depreciation are likely to mean materially weaker household real income growth over the coming few years. As a consequence, real consumer spending is likely to slow.
- **Latest export statistics (November 2016, published January 2017) show the value of exports** (EU and Non-EU) increased to £29.3 billion, and imports (EU and Non-EU) increased to £42.5 billion, compared with last month. Consequently the UK is a net importer this month, with imports exceeding exports by £13.2 billion. Exports to the UK's main trade partners were up during the month - US (£4.4bn), Germany (£3.2bn), Netherlands (£1.9bn), Switzerland (£1.9bn), France (£1.9bn).⁽⁵⁾

Consumer sentiment

- **The Consumer Prices Index (CPI)** rose by 1.6% in the year to December 2016, compared with a 1.2% rise in the year to November. The rate in December was the highest since July 2014, when it was also 1.6%.
- The latest CPI – released 17 January shows that price movements for the majority of the broad groups of goods and services in the Index acted to increase the rate between November 2016 and December 2016. The main contributors to the increase in the rate were rises in air fares and the price of food, along with prices for motor fuels.⁽⁶⁾

Key sectors & business investment

Business Investment

- **The Lloyds Bank Regional Purchasing Managers' Index (PMI)** features original survey data collected from a representative panel of companies. Businesses in England reported increases in both output and employment for the start of the year, although at a slower rate than in December. While all areas of England saw a rise in business activity, the only areas where activity increased at a faster rate month-on-month were the West Midlands (60.1) and the North West (58.1). Employment growth in England was the slowest seen since September last year – index at 51.9 – but still broadly in line with the average for 2016 as a whole. ⁽⁷⁾

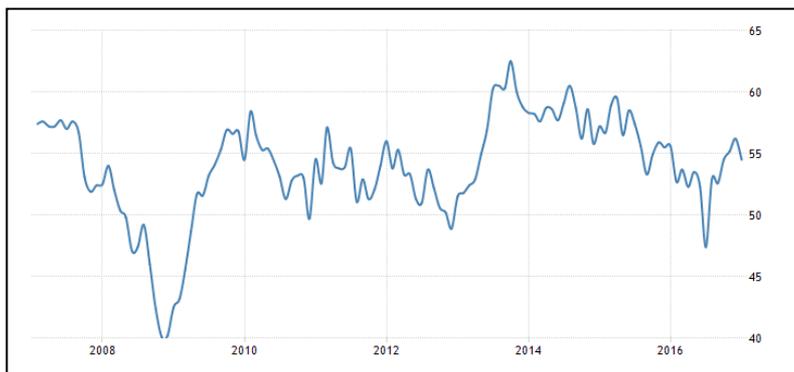
CIPS Manufacturing Purchasing Managers Index - January 2017



Manufacturing

- The UK manufacturing sector made a strong start to 2017. Output rose at the fastest rate since May 2014 as new orders expanded at a robust pace. However, input cost inflation surged to a survey record high and output charges also increased at one of the steepest rates in the series history.
- The seasonally adjusted Markit/CIPS Purchasing Managers' Index (PMI) posted 55.9 in January, only a couple of ticks below December's two-and-a-half year high of 56.1. The headline PMI has remained above the neutral mark of 50.0 for six months. ⁽⁸⁾

CIPS Services Purchasing Managers Index – January 2017



Services

- The UK service sector continued to expand at the start of 2017 according to the latest PMI survey from IHS Markit and CIPS. However, the pace of growth in total business activity moderated for the first time in four months.
- The index remained above 50, at 54.5 for January 2017, compared with 56.2 in December 2016. On the price front, input costs rose at the highest rate since March 2011. New business and employment also increased but at slower rates. ⁽⁹⁾

Trade, regulation and access to European funding

Trade, rules and regulatory developments

- The Government initiated the first stage of the Industrial Strategy on the 23rd January with the launch of a 12 week consultation, running until the 17th April, on an extensive industrial strategy discussion paper **Building our Industrial Strategy: green paper**. The paper sets out an ambition to build an industrial strategy that addresses the long-term challenges facing the UK economy, with the overarching aims to improve living standards and economic growth by increasing productivity and driving growth across the whole country. The document is notable for its much stronger focus on both 'deal making' and on the importance of 'place'. Government also announced the allocations for LEP areas in the Northern Powerhouse alongside the launch of the green paper.⁽¹⁰⁾
- The month was also marked by **Parliament's vote to trigger Article 50**, and publication of the White Paper - **The United Kingdom's exit from and new partnership with the European Union**, launched on 2 February. The White Paper sets out 12 themes of the government's goals for negotiations with the EU and is an important marker for government.
- **Parliament vote**. The PM is on course to start the two-year Brexit process next month after MPs voted by 498 to 114, a government majority of 384, for the bill that gives her the power to invoke the EU treaty's Article 50 exit clause.⁽¹¹⁾
- **The International Trade Committee** continues its inquiry into post-Brexit UK trade options and the potential impact of alternative trading arrangements after the UK leaves the EU and also the future of trade with the Commonwealth. A first panel looks at whether the UK can expect to finalise a trade agreement with the EU in the two years before Brexit; the danger of a "cliff-edge" Brexit; and prospects for trade agreements with the rest of the world. The second panel looks at the opportunities for developing UK trading relationships with the Commonwealth once a Brexit deal has been concluded, including the scope for increasing UK exports; the future of trade with developing Commonwealth countries, in particular India, Canada and Australia.⁽¹²⁾

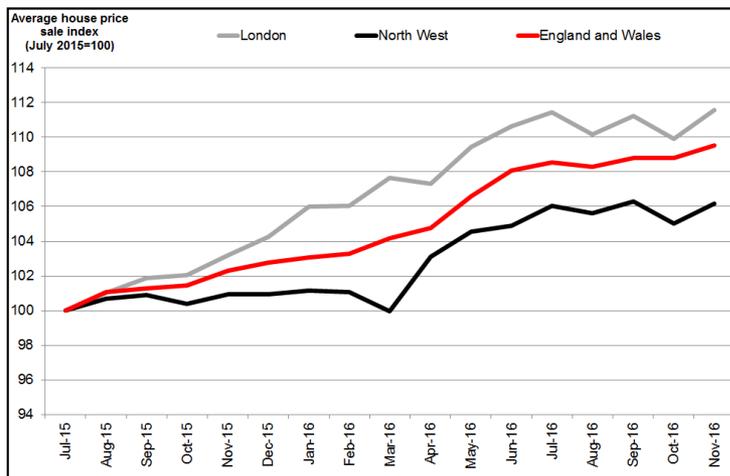
European Funding

- On 4 January Environment Secretary Andrea Leadsom announced that the remaining European funding from the Rural Development Programme for England Growth Programme would be launched on a national call. The call was launched on 25 January covering Food Processing, Tourism Infrastructure and Business Development. All LEPs in the NW have been given a notional allocation from the RDPE Programme. The Call will be open until 31 January 2018 or until funding is allocated.⁽¹³⁾
- **Transnational Funding**. The Department for Communities and Local Government is organising a National Info Day on the Northwest Europe Interreg programme on 9 March 2017 in Manchester. The programme runs two calls a year and supports cross-border collaboration projects under three priorities - innovation, low carbon and resource efficiency.⁽¹⁴⁾

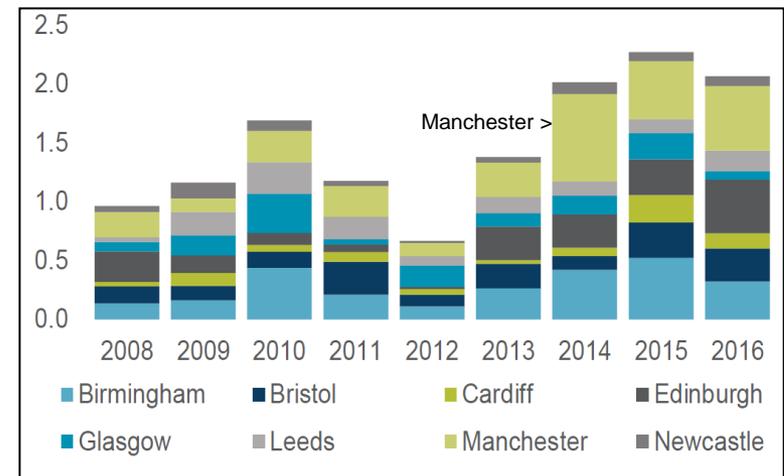
Property and investment, housing, and planning

- **Housing White Paper ‘Fixing our broken housing market’**, published 7 February. The paper outlines initiatives to help to increase housing supply in England, including:
 - placing an expectation on councils and developers that land will be used more efficiently, by building at a higher density and taller;
 - reforming the completion notice process in order to encourage development;
 - an expansion of the current Help to Buy ISA - which provides 25% bonus on savings of up to £4,000 a year on purchasing a first home or turning 60; and
 - a consultation on the principle of a standardised way of calculating housing demand in the planning system.⁽¹⁵⁾

Average House Prices Sales (Index August 2015=100)



Property and Investment – Offices (£billions)

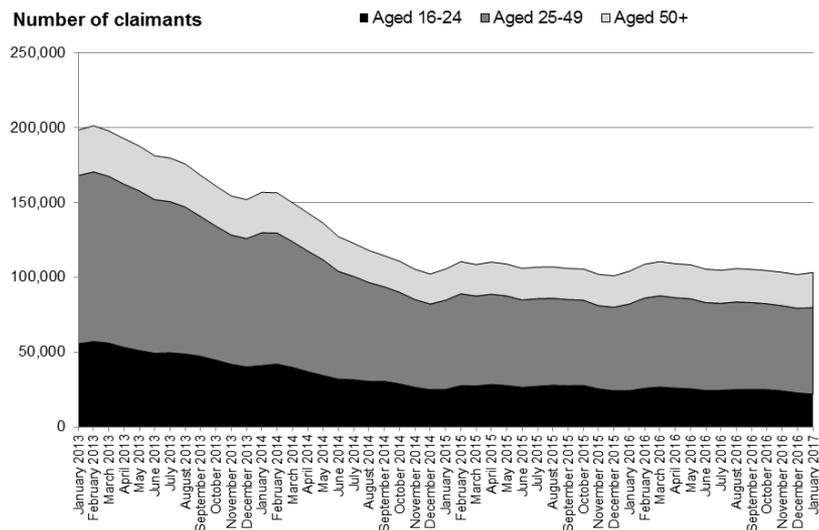


- **Official Housing Index** data from the Land Registry suggest the vote to leave the EU has had little impact on house prices, with moderate growth in average sales this period. The latest house price data for the North West shows the average price of £150,000 (November 2016) is up from £149,000 the previous month, and up £7,000 from November 2015.⁽¹⁶⁾
- **Office markets.** According to Cushman’s Regional Office Investment report, high investment volumes were recorded across the UK in 2016, despite Brexit uncertainty. Whilst investment activity slowed in the second half of the year, the overall UK investment totalled £1.7bn, the second highest volume in the last decade.⁽¹⁷⁾

Economic Inclusion

- **The Government White Paper – ‘Exit from and new partnership with the European Union’** makes a commitment to protect and enhance the rights people have at work, as the UK converts the body of EU law into domestic legislation. This section looks at factors affecting, and influenced by, economic inclusion.
- **The Household Finance Index (HFI)** compiled by Markit Economics provides the earliest indication of changes in UK household finances each month. Results for January 2017 show households had a negative outlook on their financial wellbeing due to mounting price pressures and decreased household income from employment.⁽¹⁸⁾
- **The Resolution Foundations’ annual report into UK living standards estimates that income growth will slow to 0.3 per cent a year** for the typical working age household over the next four years (accounting for housing costs), due to rising inflation and slowing employment growth. This is expected to impact disproportionately on the living standards of low income households who will experience a fall in income growth, in contrast to stagnant and slow rises for medium and high income households.⁽¹⁹⁾
- Following the raised projection in November, **the Bank of England has upgraded its forecast for UK growth** again, predicting that **Gross Domestic Product (GDP) will increase by 2% in 2017** and low levels of unemployment will continue. This will be close to 5% of the population, rather than rising to 5.5% as previously predicted.⁽²⁰⁾

Claimant count (JSA and UC) unemployed by age



Monthly Unemployment by age of resident

- **Since the EU referendum result on 24th June 2016, the claimant count unemployment has fallen in the North West by 2.0%** from 105,000 to 103,000.⁽²¹⁾
- The claimant rate in January 2017 in the North West was 2.3% of the working age population, compared with 1.9% in the UK. Within the region the rate varies from 2.8% in Liverpool CR, 2.5% in Greater Manchester, 2.2% in Lancashire, 1.5% in Cumbria; and 1.3% in Cheshire and Warrington.
- Year-on-year (January 2016 to 2017) analysis of change in the number of unemployed claimants shows the total for the region was down by just over 800. **The largest decrease is observed in claimants aged 16-24, down 9.6% from January 2016 (-2,315).** The claimant count for 25 to 49 year olds has also decreased slightly by 0.2% (-95). In contrast, the claimant level for 50+ year olds has increased by 7.4% (1,615).

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